

REMARKS OF
COMMISSIONER WILLIAM L. MASSEY
July 26, 2000 Commission Meeting
STAFF INVESTIGATION - CAE-66

Today we direct the staff to conduct an investigation that is exceptionally important and timely. Our clear policy direction over the last decade has been to foster competition in electricity markets so that we may rely on the workings of those markets to discipline prices and protect consumers. I know that everyone at this table this morning supports that goal.

We have seen extraordinary price volatility in some electricity markets. Obviously, a certain amount of volatility is to be expected because electricity cannot be stored - - supply and demand must be matched instantaneously. But what about volatility that is measured by a factor of 300 or 400 times the off peak price? Would we be concerned if the price of a barrel of oil or an automobile tank of gasoline spiked 300 fold to \$6,000? The entire Nation would be up in arms. What if standby ancillary services fetch prices far in excess of the price of what most would regard as the more valuable energy product? What if prices for electricity in one market are very high, but low in the market right next door? Do such results indicate real scarcity in a well functioning market? I am growing very concerned that shockingly high prices in poorly functioning markets can and will erode the political consensus needed to sustain a market based electricity policy. This is a huge concern.

The Commission must do a better job of monitoring and understanding the still growing electricity markets, and we must insist on efficient markets structures.

I am thus pleased that we are launching this investigation today. Clearly, it's time for the Commission to gain a better understanding of, and address the impediments to, well functioning markets. These impediments may include the continued presence of market power, sub-optimal market size, overly complicated market rules, lack of demand responsiveness, non-standard interconnection procedures and high interconnection fees for the distributed generation, barriers to the construction of new facilities, and a lack of price transparency. I know good RTOs will play an important part in resolving some of these impediments, but they cannot do the full job. And I also know that these impediments must be addressed regardless of the ownership structure of the grid operator.

In addition to identifying impediments to well functioning markets, I expect the staff to report to us what is working and what is not working in electricity markets. With that knowledge in hand, I believe it will then be time for the Commission to move aggressively and use this information in market design. We no longer have the luxury of letting a hundred flowers bloom in the market design garden. And we no longer have the luxury of merely reacting to complaints and proposals that are brought to us. We need to address market structure issues proactively. The stakes are just too high to do otherwise.

We all want price to do its job of signaling scarcity and abundance to both consumers and suppliers. But if we are to carry out our statutory responsibilities of just and reasonable rates, we must ensure that those prices are the result of a well functioning market. The investigation we launch today is a big step toward ensuring that. The need is great and the time is right for this investigation. I encourage our staff to leave no stone unturned in its investigation.

This order has my full and enthusiastic support.